

**City of Washington**

**Independent Auditor's Report  
Financial Statements and Supplementary Information  
Independent Auditor's Report on Compliance  
Schedule of Findings and Questioned Costs**

**June 30, 2007**

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## City of Washington

### Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Richard J. Cicalo	Mayor	January 2010
Sandra Johnson	Mayor Pro-tem	January 2008
Bob Shepard	Council Member 1st Ward	January 2008
Russ Zieglowsky	Council Member 2nd Ward	January 2010
Mike Roth	Council Member 3rd Ward	January 2008
Fred Stark	Council Member 4th Ward	January 2010
Merle Hagie	Council Member at Large	January 2010
Sandra Johnson	Council Member at Large	January 2008
David Plyman	City Administrator	Indefinite
Jeff Rosien	City Clerk	January 2008
Illa Earnest	Deputy City Clerk	Indefinite
Craig Arbuckle	City Attorney	January 2008



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## **Independent Auditor's Report**

Honorable Mayor and Members of City Council  
City of Washington, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Washington, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Washington's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

The financial statements referred to above include only the primary government of the City of Washington, Iowa, which consists of all funds, organizations, institutions, agencies, departments and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component units, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the City's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the cash basis financial position of the reporting entity of the City of Washington, Iowa, as of June 30, 2007, and the changes in its cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Washington as of June 30, 2007, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our reports dated June 30, 2008 on our consideration of the City of Washington's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Budgetary comparison information on pages 17 and 18 is not a required part of the financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

The City of Washington, Iowa, has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Management's Discussion and Analysis on pages 4 through 9 and budgetary comparison information on pages 20 through 21 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Washington's basic financial statements. The financial statements for the four years ended June 30, 2006 (none of which is presented herein) were audited by another auditor who expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*CPA Associates PC*

June 30, 2008

## **FINANCIAL STATEMENTS**

**City of Washington**  
**Statement of Activities and Net Assets - Cash Basis**  
**Year Ended June 30, 2007**

	Program Receipts				Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Disbursements	Charges for Service	Operating Grants Contributions, and Restricted Interest	Capital Grants Contributions and Restricted Interest	Governmental Activities	Business- Type Activities	Total
<b>Functions / Programs:</b>							
Governmental activities:							
Public safety	\$ 1,355,269	\$ 4,344	\$ 30,150	\$ -	\$ (1,320,775)	\$ -	\$ (1,320,775)
Public works	1,405,445	208,932	216,627	-	(979,886)	-	(979,886)
Culture and recreation	819,720	198,934	197,866	-	(422,920)	-	(422,920)
Community and economic development	342,321	113,146	-	268,779	39,604	-	39,604
General government	960,875	94,222	58,583	-	(808,070)	-	(808,070)
Debt service	941,246	-	-	-	(941,246)	-	(941,246)
Capital projects	248,737	-	12,273	-	(236,464)	-	(236,464)
Total governmental activities	<u>6,073,613</u>	<u>619,578</u>	<u>515,499</u>	<u>268,779</u>	<u>(4,669,757)</u>	<u>-</u>	<u>(4,669,757)</u>
Business type activities:							
Water	1,116,928	979,204	-	-	-	(137,724)	(137,724)
Sewer	726,839	1,026,867	-	-	-	300,028	300,028
Sanitation	215,012	243,718	-	-	-	28,706	28,706
Total business type activities	<u>2,058,779</u>	<u>2,249,789</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>191,010</u>	<u>191,010</u>
Total	<u>\$ 8,132,392</u>	<u>\$ 2,869,367</u>	<u>\$ 515,499</u>	<u>\$ 268,779</u>	<u>(4,669,757)</u>	<u>191,010</u>	<u>(4,478,747)</u>
<b>General Receipts:</b>							
Property tax levied for:							
General purposes					1,458,639	-	1,458,639
Tax increment financing					113,794	-	113,794
Debt service					906,995	-	906,995
Local option sales tax					671,072	-	671,072
Road use tax					587,331	-	587,331
Unrestricted investment earnings					108,490	-	108,490
Loan proceeds					281,129	-	281,129
Miscellaneous					517,289	37,342	554,631
Total general receipts and transfers					<u>4,644,739</u>	<u>37,342</u>	<u>4,682,081</u>
Change in cash basis net assets					(25,018)	228,352	203,334
Cash basis net assets beginning of year, as restated					<u>2,136,607</u>	<u>853,765</u>	<u>2,990,372</u>
Cash basis net assets end of year					<u>\$ 2,111,589</u>	<u>\$ 1,082,117</u>	<u>\$ 3,193,706</u>
<b>Cash Basis Net Assets</b>							
Restricted:							
Streets					\$ 710,042	\$ -	\$ 710,042
Sales Tax					134,946	-	134,946
Other purposes					1,074,197	-	1,074,197
Unrestricted					<u>192,404</u>	<u>1,082,117</u>	<u>1,274,521</u>
Total cash basis net assets					<u>\$ 2,111,589</u>	<u>\$ 1,082,117</u>	<u>\$ 3,193,706</u>

See notes to financial statements.

**City of Washington**  
**Statement of Cash Receipts, Disbursements and Changes in Cash Balances**  
**Governmental Funds**  
**Year Ended June 30, 2007**

	<u>Special Revenue</u>					
	<u>General</u>	<u>Road Use</u>	<u>Urban Renewal</u>	<u>Debt Service</u>	<u>Other Nonmajor Governmental</u>	<u>Total</u>
Receipts:						
Property tax	\$ 1,330,960	\$ -	\$ -	\$ 906,995	\$ 127,679	\$ 2,365,634
Tax increment financing	-	-	113,794	-	-	113,794
Other taxes	671,072	-	-	-	-	671,072
Use of money and property	174,754	-	791	-	20,445	195,990
License and permits	119,148	-	-	-	-	119,148
Intergovernmental	269,764	587,331	-	-	308,809	1,165,904
Charges for services	399,015	782	-	-	-	399,797
Special assessments	-	-	-	-	14,963	14,963
Miscellaneous	37,468	323	-	-	667,815	705,606
Total receipts	<u>3,002,181</u>	<u>588,436</u>	<u>114,585</u>	<u>906,995</u>	<u>1,139,711</u>	<u>5,751,908</u>
Disbursements:						
Operating:						
Public safety	1,355,269	-	-	-	-	1,355,269
Public works	375,639	768,978	260,828	-	-	1,405,445
Culture and recreation	664,218	-	-	-	155,502	819,720
Community and economic development	93,795	-	-	-	248,526	342,321
General government	786,531	-	-	-	132,770	919,301
Debt service	-	-	-	941,246	-	941,246
Capital projects	-	-	-	-	248,737	248,737
Total disbursements	<u>3,275,452</u>	<u>768,978</u>	<u>260,828</u>	<u>941,246</u>	<u>785,535</u>	<u>6,032,039</u>
Excess (deficiency) of receipts over disbursements	(273,271)	(180,542)	(146,243)	(34,251)	354,176	(280,131)
Other financing sources (uses):						
Debt proceeds	-	-	281,129	-	-	281,129
Net change in cash balances	(273,271)	(180,542)	134,886	(34,251)	354,176	998
Cash balances beginning of year, as restated	<u>465,675</u>	<u>890,584</u>	<u>60</u>	<u>99,969</u>	<u>705,237</u>	<u>2,161,525</u>
Cash balances end of year	<u>\$ 192,404</u>	<u>\$ 710,042</u>	<u>\$ 134,946</u>	<u>\$ 65,718</u>	<u>\$ 1,059,413</u>	<u>\$ 2,162,523</u>
<b>Cash Basis Fund Balances</b>						
Reserved:						
Debt service	\$ -	\$ -	\$ -	\$ 65,718	\$ -	\$ 65,718
Unreserved:						
General fund	192,404	-	-	-	-	192,404
Special revenue fund	-	710,042	134,946	-	565,695	1,410,683
Capital projects fund	-	-	-	-	493,718	493,718
<b>Total cash basis fund balances</b>	<u>\$ 192,404</u>	<u>\$ 710,042</u>	<u>\$ 134,946</u>	<u>\$ 65,718</u>	<u>\$ 1,059,413</u>	<u>\$ 2,162,523</u>

See notes to financial statements.



**City of Washington**  
**Reconciliation of the Statement of Cash**  
**Receipts, Disbursements and Changes in Cash Balances**  
**to the Statement of Activities and Net Assets -**  
**Governmental Funds**  
**Year Ended June 30, 2007**

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**Total governmental funds cash balances (page 5)** \$ 2,162,523

*Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:*

The Internal Service Fund is used by management to charge the costs of gas to the City's various departments to individual funds. The assets of the Internal Service Fund are included in governmental activities in the Statement of Net Assets.

(50,934)

**Cash basis net assets of governmental activities (page 4)** \$ 2,111,589

**Net change in cash balances (page 5)** \$ 998

*Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:*

The Internal Service Fund is used by management to charge the costs of employee health benefits to individual funds. The change on net assets of the Internal Service Fund is reported with governmental activities.

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The Internal Service Fund is used by management to charge the costs of gas to the City's various departments to individual funds. The change on net assets of the Internal Service Fund is reported with governmental activities.

(26,043)

**Change in cash balance of governmental activities (page 4)** \$ (25,018)

See notes to financial statements.

**City of Washington**  
**Statement of Cash Receipts, Disbursements and Changes in Cash Balances**  
**Proprietary Funds**  
**Year Ended June 30, 2007**

	<u>Enterprise Funds</u>				<u>Internal Service</u>	
	<u>Water Revolving</u>	<u>Sewer Revolving</u>	<u>Sanitation</u>	<u>Total</u>	<u>Health Insurance</u>	<u>Gas Revolving</u>
Operating receipts:						
Charges for services	\$ 979,204	\$ 1,019,218	\$ 243,718	\$ 2,242,140	\$ -	\$ 23,180
Miscellaneous	<u>17,552</u>	<u>19,790</u>	<u>-</u>	<u>37,342</u>	<u>27</u>	<u>-</u>
Total receipts	<u>996,756</u>	<u>1,039,008</u>	<u>243,718</u>	<u>2,279,482</u>	<u>27</u>	<u>23,180</u>
Operating disbursements:						
Business type activities	<u>1,116,928</u>	<u>706,362</u>	<u>215,012</u>	<u>2,038,302</u>	<u>-</u>	<u>62,051</u>
Total operating disbursements	<u>1,116,928</u>	<u>706,362</u>	<u>215,012</u>	<u>2,038,302</u>	<u>-</u>	<u>62,051</u>
Excess (deficiency) of receipts over disbursements	<u>(120,172)</u>	<u>332,646</u>	<u>28,706</u>	<u>241,180</u>	<u>27</u>	<u>(38,871)</u>
Net change in cash balances	(120,172)	332,646	28,706	241,180	27	(38,871)
Cash balances, beginning of year	<u>566,391</u>	<u>267,343</u>	<u>32,131</u>	<u>865,865</u>	<u>(350)</u>	<u>(36,668)</u>
Cash balances, end of year	<u>\$ 446,219</u>	<u>\$ 599,989</u>	<u>\$ 60,837</u>	<u>\$ 1,107,045</u>	<u>\$ (323)</u>	<u>\$ (75,539)</u>
<b>Cash Basis Fund Balances</b>						
Unreserved	<u>446,219</u>	<u>599,989</u>	<u>60,837</u>	<u>1,107,045</u>	<u>(323)</u>	<u>(75,539)</u>
Total cash basis fund balances	<u>\$ 446,219</u>	<u>\$ 599,989</u>	<u>\$ 60,837</u>	<u>\$ 1,107,045</u>	<u>\$ (323)</u>	<u>\$ (75,539)</u>

See notes to financial statements.

**City of Washington**  
**Reconciliation of the Statement of Cash Receipts, Disbursements**  
**and Changes in Cash Balances**  
**to the Statement of Activities and Net Assets -**  
**Proprietary Funds**  
**Year Ended June 30, 2007**

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**Total enterprise funds cash balances (page 7)** \$ 1,107,045

*Amounts reported for business type activities in the Statement of Activities and Net Assets are different because:*

The Internal Service Fund is used by management to charge the costs of gas to the City's various departments to individual funds. The assets of the Internal Service Fund are included in business type activities in the Statement of Net Assets.

(24,928)

**Cash basis net assets of business type activities (page 4)** \$ 1,082,117

**Net change in cash balances (page 7)** \$ 241,180

*Amounts reported for business type activities in the Statement of Activities and Net Assets are different because:*

The Internal Service Fund is used by management to charge the costs of gas to various departments to individual funds. The change on net assets of the Internal Service Fund is reported with business type activities.

(12,828)

**Change in cash balance of business type activities (page 4)** \$ 228,352

See notes to financial statements.

**City of Washington**  
**Notes to Financial Statements**

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**Note 1. Significant Accounting Policies**

The City of Washington is a political subdivision of the State of Iowa located in Washington County. It was first incorporated in 1864 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture, recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens.

Reporting Entity

For financial reporting purposes, the City of Washington has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

These financial statements present the City of Washington (the primary government) and exclude all component units. The component unit discussed below is not included in the City's reporting entity although its operational or financial relationship with the City is significant.

Excluded Component Unit

The Washington Free Public Library Foundation is a non-profit organization created for the purpose of solicitation and collection of funds for the enhancement and financial support for the Washington Free Public Library of Washington, Iowa. The Foundation is governed by a twelve member board. Complete financial statements (June 30 year end) for the individual component unit can be obtained directly from the Foundation.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Washington County Assessor's Conference Board, Washington County Emergency Management Commission, Washington County Joint E911 Service Board, Washington County Public Safety Committee and Southeast Iowa Multi-County Solid Waste Agency.

Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

**City of Washington**  
**Notes to Financial Statements**

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**Note 1. Significant Accounting Policies (continued)**

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

**Special Revenue Funds:**

The Road Use Tax Fund is used to account for road construction and maintenance.

The Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Revolving Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

**City of Washington**  
**Notes to Financial Statements**

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**Note 1. Significant Accounting Policies (continued)**

The Sanitation Fund accounts for the operation of the City's solid wastes, recycling and yard waste collection systems.

The City also reports the following additional proprietary funds:

The Internal Service Funds are utilized to account for the financing of goods or services purchased by one department of the City and provided to other departments or agencies on a cost reimbursement basis.

Measurement Focus and Basis of Accounting

The City of Washington maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, disbursements exceeded the amounts budgeted in the public safety, public works, community and economic development, general government, debt service, capital projects and business type activities functions.

**Note 2. Cash and Pooled Investments**

The City's deposits in banks at June 30, 2007 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

**City of Washington**  
**Notes to Financial Statements**

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**Note 2. Cash and Pooled Investments (continued)**

At June 30, 2007, the City had the following investments:

<u>Type</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
U.S. Government Securities	\$ 34,995	\$ 35,000
Stocks	6,009	17,463
Mutual Funds	<u>72,584</u>	<u>115,904</u>
Total	<u>\$ 113,588</u>	<u>\$ 168,367</u>

In addition, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$2,215,327 pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

Credit risk - The City's investment in the Iowa Public Agency Investment Trust is unrated.

**Note 3. Pension and Retirement Benefits**

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2007, 2006, and 2005 were \$136,345, \$132,719, and \$125,923, respectively, equal to the required contributions for each year.

**City of Washington**  
**Notes to Financial Statements**

**Note 4. Bonds and Notes Payable**

Bond Indebtedness

Annual debt service requirements to maturity for general obligation bonds, urban renewal tax increment financing revenue bonds and revenue notes are as follows:

Year Ending June 30,	General Obligation Bonds		Urban Renewal Tax Increment Financing (TIF) Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	845,000	42,420	25,000	21,185	870,000	63,605
2009	225,000	9,263	59,000	20,260	284,000	29,523
2010	-	-	60,000	17,478	60,000	17,478
2011	-	-	68,000	14,671	68,000	14,671
2012	-	-	70,000	11,519	70,000	11,519
2013-2015	-	-	163,000	15,516	163,000	15,516
	<u>\$ 1,070,000</u>	<u>\$ 51,683</u>	<u>\$ 445,000</u>	<u>\$ 100,629</u>	<u>\$ 1,515,000</u>	<u>\$ 152,312</u>

The Code of Iowa requires principal and interest on general obligation bonds be paid from the Debt Service Fund.

The urban renewal tax increment financing revenue bonds were issued for the purpose of defraying a portion of the costs of carrying out an urban renewal project of the City. The bonds are payable solely from the income and proceeds of the Special Revenue, Urban Renewal Tax Increment Financing and the taxes to be paid into the fund in accordance with Chapter 403.19 of the Code of Iowa. The proceeds of the Tax Increment Financing shall be expended only for purposes which are consistent with the plans of the City's urban renewal area. The bonds are not a general obligation of the City. However, the debt is subject to the constitutional debt limitation of the City.

**Note 5. Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payments payable to employees at June 30, 2007, primarily relating to the General Fund is \$54,755 based on rates of pay in effect at June 30, 2007.



**City of Washington**  
**Notes to Financial Statements**

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**Note 6. Risk Management**

The City of Washington is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 475 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool, fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administration expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if sufficient, by the subsequent year's member contributions.

The City of Washington's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City of Washington's annual contribution to the Pool for the year ended June 30, 2007 was approximately \$194,119.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability for risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$10,000,000, such excess coverage is also reinsured. Automobile physical damage risks are retained by the Pool up to \$100,000 each accident, each location, with excess coverage reinsured on an individual-member basis. All property risks are also reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total member's equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2007, settled claims have not exceeded the risk pool or reinsurance company coverage since the Pool's inception.

**City of Washington**  
**Notes to Financial Statements**

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**Note 6. Risk Management (continued)**

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. After the sixth year, the member is refunded 100 percent of its capital contributions, however, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City of Washington also carries commercial insurance purchased from other insurers for coverage associated with workmen's compensation and various types of liability insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**Note 7. Related Party Transactions**

No material transactions were noted during the course of the audit between the City and City officials.

**Note 8. Commitments**

In the normal course of business, the City has various outstanding commitments that are not reflected in the accompanying financial statements. The principal commitments of the City are as follows:

Sanitary sewer and paving project   \$ 463,000

**Note 9. Industrial Development Revenue Bond**

The City has issued a \$2,400,000 elderly housing revenue bond under the provisions of Chapter 419 of the Code of Iowa. The bonds and related interest are payable solely from the tenants of the properties constructed, and the bond principal and interest do not constitute liabilities of the City.

**Note 10. Deficit Fund Balance**

The Internal Service Fund Health Insurance had a deficit balance of \$323 and the Internal Service Fund Gas Revolving had a deficit balance of \$75,539 at June 30, 2007.

**City of Washington**  
**Notes to Financial Statements**

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**Note 11. Restatement of Beginning Balances**

During the fiscal year 2007, the City discovered an error in two certificates of deposit values. The Internal Service Funds were allocated to appropriate activities type for the Statement of Net Assets. The changes resulted in adjustments to beginning cash basis net assets as follows:

	<u>Statement of Net Assets</u>	
	<u>Governmental</u>	<u>Business Type</u>
	<u>Activities</u>	<u>Activities</u>
Balance at June 30, 2006	\$ 2,173,428	\$ 865,865
Certificates of deposit adjustments	(11,903)	-
Allocation of health insurance internal service fund	(350)	-
Allocation of gas revolving internal service fund	<u>(24,568)</u>	<u>(12,100)</u>
Balance at July 1, 2006, as restated	<u>\$ 2,136,607</u>	<u>\$ 853,765</u>

**Note 12. Interfund Transfers**

There were no interfund transfers for the year ended June 30, 2007.

**Note 13. Reclassification**

Certain amounts in the financial statements have been reclassified to conform to the 2007 presentation.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**City of Washington**  
**Budgetary Comparison Schedule**  
**of Receipts, Disbursements, and Changes in Balances -**  
**Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds**  
**Required Supplementary Information**  
**Year Ended June 30, 2007**

	Governmental Funds <u>Actual</u>	Proprietary Fund Type <u>Actual</u>	Less Funds not Required to be Budgeted	<u>Net</u>	<u>Budgeted Amounts</u>		Final to Net <u>Variance</u>
					<u>Original</u>	<u>Final</u>	
<b>Receipts:</b>							
Property tax	\$ 2,365,634	\$ -	\$ -	\$ 2,365,634	\$ 2,301,156	\$ 2,301,156	\$ 64,478
Tax increment financing collections	113,794	-	-	113,794	55,674	55,674	58,120
Other city taxes	671,072	-	-	671,072	425,445	425,445	245,627
Use of money and property	195,990	-	8,172	187,818	121,500	121,500	66,318
Licenses and permits	119,148	-	-	119,148	47,175	112,175	6,973
Intergovernmental	1,165,904	-	-	1,165,904	590,538	590,538	575,366
Charges for service	399,797	2,265,320	-	2,665,117	2,384,912	2,384,912	280,205
Special assessments	14,963	-	-	14,963	-	-	14,963
Miscellaneous	<u>705,606</u>	<u>37,369</u>	<u>184,469</u>	<u>558,506</u>	<u>336,048</u>	<u>336,048</u>	<u>222,458</u>
Total receipts	<u>5,751,908</u>	<u>2,302,689</u>	<u>192,641</u>	<u>7,861,956</u>	<u>6,262,448</u>	<u>6,327,448</u>	<u>1,534,508</u>
<b>Disbursements:</b>							
Public safety	1,355,269	-	-	1,355,269	1,243,782	1,263,782	(91,487)
Public works	1,405,445	-	-	1,405,445	719,060	1,244,060	(161,385)
Culture and recreation	819,720	-	155,084	664,636	682,048	707,048	42,412
Community and economic development	342,321	-	-	342,321	38,857	88,857	(253,464)
General government	919,301	-	-	919,301	674,207	774,207	(145,094)
Debt service	941,246	-	-	941,246	943,461	943,461	2,215
Capital projects	248,737	-	-	248,737	50,973	50,973	(197,764)
Business type activities	<u>-</u>	<u>2,100,353</u>	<u>-</u>	<u>2,100,353</u>	<u>1,910,060</u>	<u>1,940,060</u>	<u>(160,293)</u>
Total disbursements	<u>6,032,039</u>	<u>2,100,353</u>	<u>155,084</u>	<u>7,977,308</u>	<u>6,262,448</u>	<u>7,012,448</u>	<u>(964,860)</u>
Excess (deficiency) of receipts over disbursements	(280,131)	202,336	37,557	(115,352)	-	(685,000)	
Other financing sources	<u>281,129</u>	<u>-</u>	<u>-</u>	<u>281,129</u>	<u>-</u>	<u>685,000</u>	
Net change in cash balances	998	202,336	37,557	165,777	-	-	
Balances beginning of year	<u>2,161,525</u>	<u>828,847</u>	<u>397,345</u>	<u>2,593,027</u>	<u>3,112,675</u>	<u>3,112,675</u>	
Balances end of year	<u>\$ 2,162,523</u>	<u>\$ 1,031,183</u>	<u>\$ 434,902</u>	<u>\$ 2,758,804</u>	<u>\$ 3,112,675</u>	<u>\$ 3,112,675</u>	

See accompanying independent auditor's report.

**City of Washington**  
**Notes to Required Supplementary Information - Budgetary Reporting**

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The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds (when they exist). The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, a budget amendment increased budgeted disbursements by \$750,000. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2007, disbursements exceeded the amounts budgeted in public safety, public works, community and economic development, general government, capital projects and business type activities.

**City of Washington**  
**Statement of Cash Receipts, Disbursements and Changes in Cash Balances**  
**Nonmajor Governmental Funds**  
**Year Ended June 30, 2007**

	<u>Special Revenue</u>							
	<u>Housing Rehabilitation</u>	<u>Employee Benefits</u>	<u>Liability Insurance</u>	<u>Special Assessment Bonds/Notes</u>	<u>Trusts</u>	<u>Capital Reserves</u>	<u>Capital Projects</u>	<u>Total</u>
Receipts:								
Property tax	\$ -	\$ 55,304	\$ 72,375	\$ -	\$ -	\$ -	\$ -	\$ 127,679
Use of money and property	-	-	-	-	8,172	-	12,273	20,445
Intergovernmental	268,779	-	-	-	-	-	40,030	308,809
Special assessments	-	-	-	14,963	-	-	-	14,963
Miscellaneous	-	-	-	-	184,469	173,614	309,732	667,815
Total receipts	<u>268,779</u>	<u>55,304</u>	<u>72,375</u>	<u>14,963</u>	<u>192,641</u>	<u>173,614</u>	<u>362,035</u>	<u>1,139,711</u>
Disbursements:								
Operating:								
Culture & recreation	-	-	-	-	155,084	418	-	155,502
Community and economic development	248,526	-	-	-	-	-	-	248,526
General government	-	-	-	-	-	132,770	-	132,770
Debt service	-	-	-	-	-	-	-	-
Capital projects	-	-	-	-	-	-	248,737	248,737
Total disbursements	<u>248,526</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>155,084</u>	<u>133,188</u>	<u>248,737</u>	<u>785,535</u>
Excess (deficiency) of receipts over disbursements	<u>20,253</u>	<u>55,304</u>	<u>72,375</u>	<u>14,963</u>	<u>37,557</u>	<u>40,426</u>	<u>113,298</u>	<u>354,176</u>
Net change in cash balances	20,253	55,304	72,375	14,963	37,557	40,426	113,298	354,176
Cash balances, beginning of year	<u>(3,711)</u>	<u>(28,851)</u>	<u>-</u>	<u>460</u>	<u>397,345</u>	<u>339,067</u>	<u>927</u>	<u>705,237</u>
Cash balances, end of year	<u>\$ 16,542</u>	<u>\$ 26,453</u>	<u>\$ 72,375</u>	<u>\$ 15,423</u>	<u>\$ 434,902</u>	<u>\$ 379,493</u>	<u>\$ 114,225</u>	<u>\$ 1,059,413</u>
<b>Cash Basis Fund Balances</b>								
Unreserved:								
Special revenue funds	\$ 16,542	\$ 26,453	\$ 72,375	\$ 15,423	\$ 434,902	\$ -	\$ -	\$ 565,695
Capital projects funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>379,493</u>	<u>114,225</u>	<u>493,718</u>
Total cash basis fund balances	<u>\$ 16,542</u>	<u>\$ 26,453</u>	<u>\$ 72,375</u>	<u>\$ 15,423</u>	<u>\$ 434,902</u>	<u>\$ 379,493</u>	<u>\$ 114,225</u>	<u>\$ 1,059,413</u>

See accompanying independent auditor's report.

**City of Washington  
Statement of Indebtedness  
Year Ended June 30, 2007**

<u>Obligation</u>	<u>Date of Issuance</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>	<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
<b>General obligation bonds:</b>									
Essential corporate purpose	06/01/99	3.80-4.25%	\$ 1,900,000	\$ 650,000	\$ -	\$ 210,000	\$ 440,000	\$ 27,308	\$ -
Essential corporate purpose	06/01/02	2.60-3.80%	2,535,000	<u>1,265,000</u>	<u>-</u>	<u>635,000</u>	<u>630,000</u>	<u>46,483</u>	<u>-</u>
Total				<u>\$ 1,915,000</u>	<u>\$ -</u>	<u>\$ 845,000</u>	<u>\$ 1,070,000</u>	<u>\$ 73,791</u>	<u>\$ -</u>
<b>Revenue Notes:</b>									
Urban Renewal Series 2004	01/12/04	3.70%	\$ 190,000	\$ 180,000	-	15,000	\$ 165,000	\$ 6,695	-
Urban Renewal Series 2006	09/15/06	5.375%	<u>280,000</u>	<u>-</u>	<u>280,000</u>	<u>-</u>	<u>280,000</u>	<u>10,827</u>	<u>-</u>
Total				<u>\$ 180,000</u>	<u>\$ 280,000</u>	<u>\$ 15,000</u>	<u>\$ 445,000</u>	<u>\$ 17,522</u>	<u>\$ -</u>

See accompanying independent auditor's report.



**City of Washington  
Bond and Note Maturities  
June 30, 2007**

**General Obligation Bonds:**

Year Ending <u>June 30,</u>	Interest <u>Rate</u>	Essential Corporate Purpose June 1, 1999 <u>Amount</u>	Interest <u>Rate</u>	Essential Corporate Purpose June 1, 2002 <u>Amount</u>	<u>Total</u>
2008	4.20%	\$ 215,000	3.60%	\$ 630,000	\$ 845,000
2009	4.25%	<u>225,000</u>		<u>-</u>	<u>225,000</u>
		<u>\$ 440,000</u>		<u>\$ 630,000</u>	<u>\$1,070,000</u>

**Urban Renewal Tax Increment Financing (TIF) Revenue Bonds:**

Year Ending <u>June 30,</u>	Interest <u>Rate</u>	Series 2004 January 12, 2004 <u>Amount</u>	Interest <u>Rate</u>	Series 2006 September 15, 2006 <u>Amount</u>	<u>Total</u>
2008	3.70%	\$ 25,000		\$ -	\$ 25,000
2009	3.70%	25,000	5.375%	34,000	59,000
2010	3.70%	25,000	5.375%	35,000	60,000
2011	3.70%	30,000	5.375%	38,000	68,000
2012	3.70%	30,000	5.375%	40,000	70,000
2013	3.70%	30,000	5.375%	43,000	73,000
2014		-	5.375%	45,000	45,000
2015		<u>-</u>	5.375%	<u>45,000</u>	<u>45,000</u>
		<u>\$ 165,000</u>		<u>\$ 280,000</u>	<u>\$ 445,000</u>

See accompanying independent auditor's report.

**City of Washington**  
**Schedule of Receipts By Source and Disbursements By Function -**  
**All Governmental Funds**

		Year Ending June 30,				
		<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Receipts:						
Property tax	\$	2,365,634	\$ 2,345,992	\$ 2,367,998	\$ 2,338,456	\$ 2,305,132
Tax increment financing collections		113,794	101,008	94,486	74,052	52,171
Other city taxes		671,072	455,213	545,406	388,387	223,692
Use of money and property		195,990	69,611	53,880	45,700	37,740
Licenses and permits		119,148	154,770	99,077	62,260	82,189
Intergovernmental		1,165,904	855,371	835,138	867,115	1,369,261
Charges for services		399,797	218,106	207,144	210,226	114,092
Special assessments		14,963	32,849	17,801	24,600	16,803
Miscellaneous		<u>705,606</u>	<u>113,484</u>	<u>205,480</u>	<u>118,839</u>	<u>792,021</u>
Total	\$	<u>5,751,908</u>	<u>4,346,404</u>	<u>4,426,410</u>	<u>4,129,635</u>	<u>4,993,101</u>
Disbursements:						
Operating:						
Public safety	\$	1,355,269	\$ 1,561,645	\$ 1,425,479	\$ 1,128,631	\$ 1,851,231
Public works		1,405,445	691,540	559,650	377,117	725,351
Culture and recreation		819,720	687,928	620,817	670,587	1,030,803
Community and economic development		342,321	125,114	-	32,679	67,527
General government		919,301	846,315	736,814	569,067	536,329
Debt service		941,246	918,085	923,092	921,882	1,026,731
Capital projects		<u>248,737</u>	<u>291,636</u>	<u>234,494</u>	<u>1,628,901</u>	<u>257,913</u>
Total	\$	<u>6,032,039</u>	<u>5,122,263</u>	<u>4,500,346</u>	<u>5,328,864</u>	<u>5,495,885</u>

See accompanying independent auditor's report.



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**Independent Auditor's Report on Internal Control Over Financial Reporting  
and on Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with Government Auditing Standards**

Honorable Mayor and  
Members of the City Council

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Washington, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated June 30, 2008. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City of Washington's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Washington's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Washington's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies, including deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Washington's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other misstatement of the City of Washington's financial statements that is more than inconsequential will not be prevented or detected by the City of Washington's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the City of Washington's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe all of them to be material weaknesses.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Washington's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Washington's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Washington's responses and accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Washington and other parties to whom the City of Washington may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Washington during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*CPA Associates PC*

June 30, 2008

**City of Washington**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2007**

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**Part I: Findings Related to the Financial Statements**

**SIGNIFICANT DEFICIENCIES:**

I-A-07     Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will consider this.

Conclusion - Response acknowledged. The City could segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

I-B-07     Reconciliation of Utility Billings, Collections and Delinquencies - Utility billings, collections and delinquent accounts were not reconciled throughout the year.

Recommendation - Procedures should be established to reconcile utility billings, collections and delinquencies for each billing period and to reconcile collections to deposits. The Council or a Council-designated independent person should review the reconciliation and monitor delinquencies.

Response - The City will establish and implement procedures to reconcile utility billings, collections and delinquencies for each billing period and resolve any variances in a timely manner.

Conclusion - Response accepted.

I-C-07     Reconciliation of Cemetery Billings, Collections and Delinquencies - Cemetery billings, collections and delinquent accounts were not reconciled throughout the year.

Recommendation - Procedures should be established to reconcile cemetery billings, collections and delinquencies for each billing period and to reconcile collections to deposits. The Council or a Council-designated independent person should review the reconciliation and monitor delinquencies.

Response - The City will establish and implement procedures to reconcile cemetery billings, collections and delinquencies for each billing period and resolve any variances in a timely manner.

Conclusion - Response accepted.

**City of Washington**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2007**

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I-D-07     Accounting Records - The City Council and management share the ultimate responsibility for the City's financial statements. The City has not implemented procedures, to the degree necessary, to perform a review and assume responsibility to the City's financial statements and related disclosures to provide a high level of assurance that potential omissions or other error that are less material, but more than inconsequential, would be identified and corrected. A monthly bank to book reconciliation was not prepared to support month end balances. Certain cash receipts and disbursements were not recorded in the City's books. Such a system does not permit the preparation of accurate and reliable reports. As a result we noted the following:

Revenues not recorded:	
Option sales tax	\$ 81,656
Airport grant	146,848
Expenses not recorded:	
Library CD	\$ 2,000
Certificate transferred	68,000
Donation to library	61,250
Sales tax expense	78,135

Additionally, the City has not reconciled the accounts payable module of it's software system since approximately December of 2000. As a result of this, expenses are not being reflected in the correct accounting period, and sometimes not reflected accurately in any accounting period.

Recommendation - The monthly financial reports should include a bank to book reconciliation to support the month end balances. All transactions should be recorded in the City's books.

Response - The City will adopt a policy to include a bank to book reconciliation of month end balances.

Conclusion - Response accepted.

I-E-07     Credit Cards - The City has credit cards for use by various employees while on City business. The City has not adopted a formal policy to regulate the use of credit cards and to establish procedures for the proper accounting of credit card charges.

Recommendation - The City should adopt a formal written policy regulating the use of City credit cards. The policy, at a minimum, should address who controls credit cards, who is authorized to use credit cards and for what purposes, as well as the types of supporting documentation required to substantiate charges.

Response - The City will review procedures and guidelines and establish a written policy.

Conclusion - Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were reported.

**City of Washington**  
**Schedule of Findings and Questioned Costs**  
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**Part II: Other Findings Related to Statutory Reporting**

II-A-07 Official Depositories - A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2007. Two of the four banks approved on the resolution naming depositories have changed names.

II-B-07 Certified Budget - Disbursements during the year ended June 30, 2007 exceed the amounts budgeted in public safety, public works, community and economic development, general government, capital projects and business type activities. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - The budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The City Clerk's Office will monitor this closely and try to avoid these types of situations in the future.

Conclusion - Response accepted.

II-C-07 Questionable Disbursements - Certain disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented were noted. These disbursements are detailed as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Caseys	Pizza for City employees	\$ 21
Pizza Hut	Pizza for City employees	620
Bredeaux Pizza	Pizza for City employees	47
Sirloin Stockade	Lunch for City employees	64

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation - The Council should determine and document the public purpose served by these disbursements before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirements for proper documentation.

Response - We will comply with this recommendation.

Conclusion - Response accepted.

II-D-07 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

**City of Washington**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2007**

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II-E-07 Business Transactions - We noted no evidence of business transactions between the City and City officials or employees which we believed to be in violation of statutory provisions.

II-F-07 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-G-07 Council Minutes - Transactions were found that we believe should have been approved in the Council minutes but were not. On one occasion \$61,250 was withdrawn and donated to the Library Foundation. A \$68,000 certificate of deposit matured and was transferred to the Library Foundation based only on the City Clerk's signature.

Although minutes of Council proceedings were published, they were not always published within fifteen days of the meeting as required by Chapter 372.16(6) of the Code of Iowa.

Recommendation - The City should publish minutes as required. All transactions should be approved by the Council.

Response - Timing of publication of Council minutes has improved, and will consistently meet the 15 day publication requirement in the future. All future transactions will be approved by the Council.

Conclusion - Response accepted.

II-H-07 Bonds and Revenue Notes - The City has complied with the revenue bond and note resolutions.

II-I-07 Deposits and Investments - During the audit it was discovered the City does not have a written investment policy that complies with the provision of Chapter 12B.10B of the Code of Iowa. Also discovered during the audit, stock certificates held by the City were not in the US Bank lockbox during our inspection and have not been accounted for as of our audit date. The estimated market value of these certificates is approximately \$17,500.

Recommendation - The City should adopt a written investment policy that complies with the provision of Chapter 12B.10B of the Code of Iowa. The City should find the location of the stock certificates and properly record the information in detail records of amounts held and location.

Response - We will consider this.

Conclusion - Response accepted.

II-J-07 Financial Condition - At June 30, 2007, Internal Service Health Insurance fund had a deficit balance of \$323 and the Internal Service Gas Revolving fund had a deficit balance of \$75,539.

Recommendation - The City should monitor the progress of the collections and expenses in these funds and review the control procedures throughout the period so the collections cover the expenses in these funds.

Response - We will consider this.

Conclusion - Response accepted.



**City of Washington**  
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II-K-07 Local Option Sales Tax - Local option sales tax collections were posted directly to the General Fund rather than in a Special Revenue Fund. One monthly local option sales tax receipt was not recorded in the City's books.

Recommendation - The City should establish a Special Revenue Fund for local option sales tax receipts, disbursements and balances and to demonstrate compliance with the City's referendum for the use of the tax. All local option sales tax receipts should be recorded in the City's books.

Response - We will do this.

Conclusion - Response accepted.

II-L-07 Separately Maintained Records - The City of Washington Volunteer Fire Department and Municipal Band maintain separate checking accounts for donations, grants and fund raising activities. These accounts are separate from the City's accounts allowing transactions to go unrecorded. Accordingly, certain donations and expenditures from these accounts are not being appropriately included on the City's financial statements. The expenditures may not meet the requirements of public purpose and may not be appropriately included within the budget as required by the Code of Iowa.

Recommendation - Chapter 384.20 of the Code of Iowa states, in part, "A City shall keep accounts which show an accurate and detailed statement of all public funds collected, received or expended for any city purpose." For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the City's accounting records and reported to the Council on a monthly basis.

Response - The City and the Volunteer Fire Department and Municipal Band should ensure that procedures are in place to document all receipts and expenditures in accordance with the Code of Iowa.

Conclusion - Response accepted.

II-M-07 Dual Signatures on Checks - The City does not require dual signatures on each check issued. Consequently, some checks have two signatures, others have only one signature.

Recommendation - The City should establish a policy regarding dual signatures on all checks issued. Preferably, the second signature should be an independent person who should also review supporting documentation for each check to ensure each disbursement is proper.

Response - We will consider this.

Conclusion - Response accepted.